

Chapter 1

The State of Small Business

Synopsis

Nineteen ninety-six was an excellent year for the economy and for small business. The economy gained more than 2 million payroll jobs and real gross domestic product increased by 2.5 percent. The unemployment rate fell from 5.6 percent in 1995 to 5.3 percent in 1996. Consumer prices remained stable, while corporate profits and employment compensation both increased.

A record 842,000 new small firms with employees opened their doors in 1996 and new incorporations hit a record high for the third straight year. More than 23.2 million business tax returns were filed. Business failures and bankruptcies remained low for the fourth straight year. The business failure index was at its lowest level since 1989.

Corporate profits increased in 1996 for the sixth straight year. Not since the recovery from the 1981–1982 recession has such a string of increases occurred. Employment compensation and proprietorship earnings also increased significantly.

Small-business-dominated industries added jobs to the economy at a rate more than 1.3 times the national rate of increase of 2.5 percent. Small businesses are concentrated in the trade and service sectors that are growing most rapidly.

Introduction

The economy continued to grow in 1996 for the fifth consecutive year.¹ Major economic indicators reflected slow, steady and sustainable economic growth (Table 1.1). Small businesses contributed to and shared in the benefits of the growing economy.

The production of goods and services, adjusted for inflation, grew by 2.5 percent in 1996, while the unemployment rate declined from 5.6 to 5.3 percent. The economy added 2.4 million private sector jobs to nonfarm payrolls; compensation to employees increased by 5.3 percent. This expansion occurred without igniting inflation: the Consumer Price Index rose by only 3.3 percent and long-term interest rates declined.

¹ A comprehensive discussion of the performance of the U.S. economy appears in the *Economic Report of the President: Transmitted to the Congress February 1997* (Washington, D.C.: U.S. Government Printing Office, 1997).

Table 1.1 *Selected Indicators of Economic Performance, 1995–1996*

	1995	1996	Percent Change
Gross Domestic Product (Billions of Dollars)	7,253.8	7,580.0	4.5
Gross Domestic Product (Chained 1992 Billions of Dollars)	6,742.9	6,911.0	2.5
Unemployment Rate	5.6	5.4	–0.2
Nonagricultural Payrolls (Millions of Workers)	116.6	119.0	2.4
Compensation of Employees (Billions of Dollars)	4,222.7	4,448.5	5.3
Nonfarm Proprietors' Income (Billions of Dollars)	458.2	482.6	5.3
Corporate Profits (Billions of Dollars)	604.8	670.2	10.8
Consumer Price Index	152.4	156.9	3.5
Consumer Confidence Index	100.0	104.6	4.6
Federal Deficit (Billions of Dollars)	163.9	107.3	–34.5
Interest Rates on:			
Long-Term Treasury Bills	6.9	6.7	–0.2
91-Day Treasury Bills	5.5	5.0	–0.5
Federal Funds	5.8	5.3	–0.5
High-Grade Corporate Securities	7.59	7.37	–0.19
Housing Starts (Millions)	1.35	1.48	8.9

Source: Board of Governors of the Federal Reserve System, annual averages as reported in various tables of "Financial and Business Statistics," *Federal Reserve Bulletin*, April 1997.

While the federal deficit declined 34.5 percent to \$107.3 billion (the lowest since 1981), corporate profits grew by 11.5 percent and nonfarm proprietors' income—an important measure of the health of the small business sector—rose from \$449.2 billion to \$471.9 billion, an increase of 5.3 percent. The index of consumer confidence rose to 104.6 in 1996, an increase of 4.6 percentage points since 1995, and the highest level since 1989.

The Number of Small Businesses

The number of businesses that filed tax returns increased by 3.3 percent in 1995 and reached 23.3 million (Table 1.2). Over the 15-year span from 1981 to 1996, the number of businesses grew at a rate of 4.7 percent per year.

Table 1.2 *Nonfarm Business Tax Returns, 1981–1996 (Thousands)*

Year	Corporations (Forms 1120 and 1120S)	Partnerships (Form 1065)	Proprietorships (Schedule C)	Total	Annual Percentage Increase
1996 ^P	5,018	1,613	16,664	23,295	3.28
1995	4,818	1,580	16,157	22,555	2.26
1994	4,667	1,558	15,831	22,056	2.22
1993	4,516	1,567	15,495	21,578	1.64
1992	4,518	1,609	15,066	21,230	2.79
1991	4,374	1,652	14,626	20,653	1.05
1990	4,320	1,751	14,149	20,439	4.78
1989	4,197	1,780	13,529	19,506	2.78
1988	4,027	1,826	13,126	18,979	3.79
1987	3,829	1,824	12,633	18,286	4.50
1986	3,577	1,807	12,115	17,499	3.18
1985	3,437	1,755	11,767	16,959	4.88
1984	3,167	1,676	11,327	16,170	6.40
1983	3,078	1,613	10,507	15,198	5.96
1982	2,913	1,553	9,877	14,343	5.38
1981	2,813	1,458	9,345	13,616	—
Average Annual Growth Rate (Percent)	5.2	0.7	5.2	4.7	

P=Projected from the *SOI Bulletin*, Winter 1996–1997, 170, Table 21. Data exclude tax-exempt organizations.

Source: U. S. Department of the Treasury, Internal Revenue Service, *Statistics of Income Bulletin* (Winter 1996–1997), Table 21.

Of that total, about 6 million small businesses employ between one and 500 workers. About 15,000 employ more than 500 workers and the remainder have no employees.

Business Formation and Dissolution

A record 842,357 new small firms with employees opened their doors in 1996—a slight percentage increase over 1995 (Table 1.3).² The number of these firms has increased fairly steadily over the past decade, reaching successive new highs in 1993, 1994, 1995, and 1996. Over the 1982–1996 period, the total number of firms with employees increased at a rate of just over 2.9

² The United States has no formal annual survey of new business formation. Three proxies are used instead: the change in the total number of tax returns filed, the count of new firms with employees, and new incorporations. Good records of the number and size of new businesses with employees are available through the reports of employment and unemployment insurance tax liabilities to state employment security agencies. Casual business activities are less likely to be included in this measure than in the tax return total. The number of firms filing these reports is reported by the U. S. Department of Labor. Larger firms often report in more than one state, so the nationwide employment security count is about 10 percent higher than the Bureau of the Census count for the same year. Data from the Bureau of the Census are available only after a two-year delay, while the employment security data are available on a current basis, which makes these data particularly useful.

Table 1.3 *Change in the Number of U.S. Businesses with Employees, Fiscal Years 1982–1996 (Thousands)*

Year	Firms at End of Year	Successor Firms	New Firms	Sum: New and Successor	Terminations	Net Rate of Growth (Percent)
1996	6,191	176	842	1,018	849	2.21
1995	6,057	164	819	983	871	1.08
1994	5,992	137	807	944	803	2.41
1993	5,851	136	776	911	801	1.93
1992	5,741	138	737	875	819	0.95
1991	5,687	140	724	864	818	0.84
1990	5,639	146	769	915	846	1.27
1989	5,568	153	743	896	826	1.01
1988	5,513	153	755	907	752	1.71
1987	5,420	163	775	939	717	3.64
1986	5,230	175	741	916	801	1.71
1985	5,142	166	722	888	746	2.67
1984	5,009	164	691	855	687	3.54
1983	4,837	171	633	804	720	1.26
1982	4,777	185	595	781	707	1.55
Average	5,510	158	742	900	784	1.85

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor, Employment and Training Administration, based upon state employment security agencies' quarterly unemployment insurance reports, 1997.

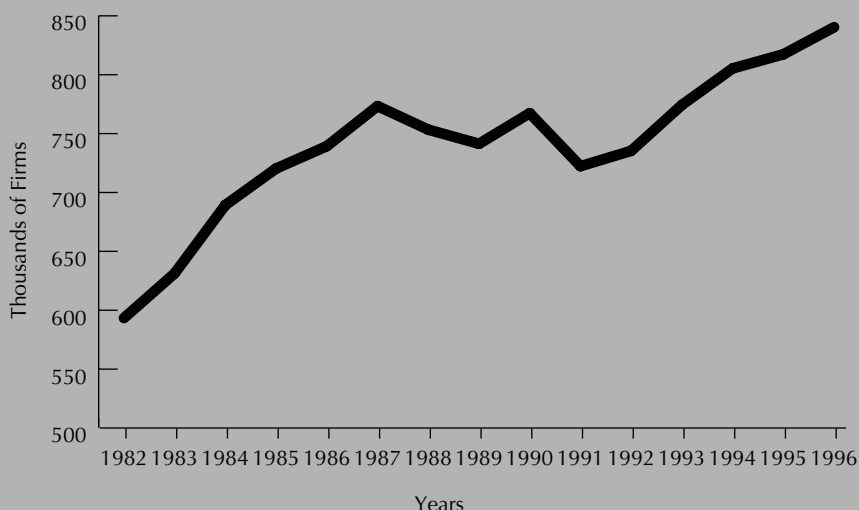
percent per year, exceeding the rates of growth of the general population and the work force (Chart 1.1).

Although the net annual increase between 1982 and 1996 averages just 2 percent, the level of activity in business formation and closure is actually much higher. Each year about 14 percent of small firms with employees drop from the unemployment insurance rolls, while the number of new firms added is equal to about 16 percent of the total.

A high rate of business formation and dissolution is characteristic of a dynamic economy. Changing tastes and preferences, new technologies, and changes in demography and geography are all accommodated by the entry and exit of firms. New small businesses answer many of the needs, entering the marketplace with new products and services, at new locations, and with new and different methods of distribution.

The formation and dissolution of businesses varies by region across the United States (Table 1.4). Region IX (the Pacific states of California, Arizona, Hawaii, and Nevada) showed the largest net growth in the number of firms during 1996, posting a net gain of almost 4.5 percent. Regions VIII, IX, and X all exceeded the average growth rate of new firms by wide margins.

Chart 1.1 *New Firms with Employees, 1982–1996*



Source: U.S. Small Business Administration, Office of Advocacy, based upon U.S. Department of Labor, Employment and Training Administration.

Table 1.4 *New Firms, Terminations, and Successor Firms, by SBA Region, 1995–1996*

	Firms at End of 1996	Percent Change from 1995	New Firms at End of 1996	Percent Change from 1995	Terminations at End of 1996	Percent Change From 1995
U.S. Total	6,190,907	2.21	842,357	2.79	849,839	6.82
Region I	371,832	1.57	41,116	1.95	43,441	−4.14
Region II	659,925	1.87	84,086	2.89	81,538	−1.14
Region III	592,525	0.38	72,043	−0.17	86,857	17.98
Region IV	1,227,626	2.31	169,125	0.31	175,626	5.85
Region V	972,739	1.30	109,205	−1.84	120,291	4.08
Region VI	626,094	1.95	85,440	2.50	91,839	6.65
Region VII	223,839	1.22	22,832	−4.00	27,329	−1.73
Region VIII	246,015	4.18	39,762	8.81	30,851	−16.15
Region IX	958,024	4.46	164,681	9.68	135,591	−24.17
Region X	312,288	2.80	54,067	4.81	56,476	10.18

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor, Employment and Training Administration, based upon state employment security agencies' quarterly unemployment insurance reports, 1997.

Business Incorporations

Corporations represent more than 60 percent of businesses with employees and account for nearly 90 percent of the nation's sales and employment.³ The number of new business incorporations increased by 2.9 percent in 1996 to 790,569—another new record (Table 1.5).

Regions VIII and IX again led the nation in the growth in new incorporated firms in 1996, with increases about three times the national rate (Table 1.6). New business incorporations rose 10.2 percent in Region IX to 83,210 new firms. Region VIII had 29,843 new firms. In particular, Montana, Nevada, and Arizona led these regions with double-digit increases in new incorporations.

By contrast, the percentage of new incorporations declined in SBA Regions I, II, VII and X. While most regions have displayed a healthy growth in new incorporations during the past several years, there was some slowdown in this indicator of business formation along the East Coast and in the far western quadrant of the nation during 1996. For example, in Regions I and II, all states except Maine and New York showed declines in the number of new incorporations in 1996. These states did not sustain the very high business formation rates of the recent past.

Business Bankruptcies and Failures

Over the past three years, the levels of both failures and bankruptcies have remained steady, dropping sharply from the periods of increasing failures and bankruptcies at the beginning of the decade.

Business failures, which follow a seasonal pattern, rose one percent nationwide between 1995 and 1996 (Table 1.7, Chart 1.2). Failures per 10,000 enterprises reached the lowest level since 1990 (Table 1.8, Chart 1.3).⁴ Business bankruptcies rose 5.3 percent during 1996 to 53,214, but remained at low levels for the fourth straight year.

Most firms fail in their early years. For a given cohort, about 20 percent of the remaining firms fail in each of the first and second years after startup.

³ The business incorporation series of the Dun and Bradstreet Corporation measures firms that choose to incorporate in each state and operate as corporations.

⁴ Business failures represent business closings with a financial loss to one or more creditors that are reported to the Dun & Bradstreet Corporation. This definition is much narrower than the definition for terminations, as reported in the unemployment insurance data. Terminations represent businesses ceasing to report employment and may be closings with or without reported creditor losses. A bankruptcy is the legal recognition that a company is insolvent and not able to satisfy creditors or discharge liabilities. The company must restructure or liquidate. Not all firms, particularly those with no employees, are listed with Dun & Bradstreet and not all closing firms are reported as having an outstanding debt to a creditor. The result is that closings or "discontinuances" are about 10 times as frequent as closings with reported creditor losses. The number of bankruptcies is also about one-tenth of the overall number of business terminations. In every year observed, the number of businesses that "fail" or apply to bankruptcy court is small compared with the number that just close their doors, and is equal to about 1.5 percent of all firms reporting employment.

Table 1.5 *New Business Incorporations, 1981–1996*

	Incorporations	Percent Change
1996	790,569	2.9
1995	768,180	3.6
1994	741,657	5.0
1993	706,537	6.0
1992	666,800	6.1
1991	628,580	−2.9
1990	647,366	−4.3
1989	676,567	−1.2
1988	685,095	−0.1
1987	685,572	−2.4
1986	702,101	5.0
1985	668,904	5.3
1984	634,991	5.8
1983	600,400	5.9
1982	566,942	−2.5
1981	581,661	—

Source: Adapted by the U.S. Small Business Administration, Office of Advocacy, from the Dun and Bradstreet Corporation, *New Business Incorporations* (various issues).

Table 1.6 *New Business Incorporations by SBA Region, 1995 and 1996*

	1995	1996	Percent Change
U.S. Total	768,180	790,569	2.9
Region I	28,582	27,646	−3.3
Region II	110,294	109,283	−0.9
Region III	110,646	116,137	5.0
Region IV	177,002	185,744	4.9
Region V	120,080	122,189	1.8
Region VI	66,882	67,726	1.3
Region VII	24,503	22,963	−6.3
Region VIII	27,574	29,843	8.2
Region IX	75,497	83,210	10.2
Region X	27,120	25,828	−4.8

Note: SBA regions are defined as follows: Region I: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont; Region II: New Jersey, New York; Region III: Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia; Region IV: Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee; Region V: Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin; Region VI: Arkansas, Louisiana, New Mexico, Oklahoma, Texas; Region VII: Iowa, Kansas, Missouri, Nebraska; VIII: Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming; Region IX: Arizona, California, Hawaii, Nevada; and Region X: Alaska, Idaho, Oregon, Washington.

Source: U.S. Small Business Administration, Office of Advocacy, based upon data provided by the Dun and Bradstreet Corporation, Economic Analysis Department, 1997.

Table 1.7 *Measures of Business Failure, 1984–1996*

	Bankruptcies	Percent Change	Failures	Percent Change
1996	53,214	5.3	71,811	1.0
1995	50,516	−0.6	71,194	−0.5
1994	50,845	−17.7	71,558	−16.9
1993	61,799	−11.5	86,133	−11.4
1992	69,848	−1.1	97,069	9.9
1991	70,605	10.5	87,266	43.7
1990	63,912	2.3	60,746	20.6
1989	62,449	−0.6	50,361	−11.8
1988	62,845	−22.9	57,099	−6.6
1987	81,463	1.9	61,111	−0.8
1986	79,926	12.2	61,601	7.9
1985	71,277	11.0	57,067	9.6
1984	64,211	2.9	52,078	—

Sources: For failures, adapted by the U.S. Small Business Administration, Office of Advocacy, from the Dun and Bradstreet Corporation, *Business Failure Record* (various issues); for bankruptcies, from data provided by the Administrative Office of the U.S. Courts, Statistical Analysis and Reports Division.

Chart 1.2 *Business Failures, 1985–1996*

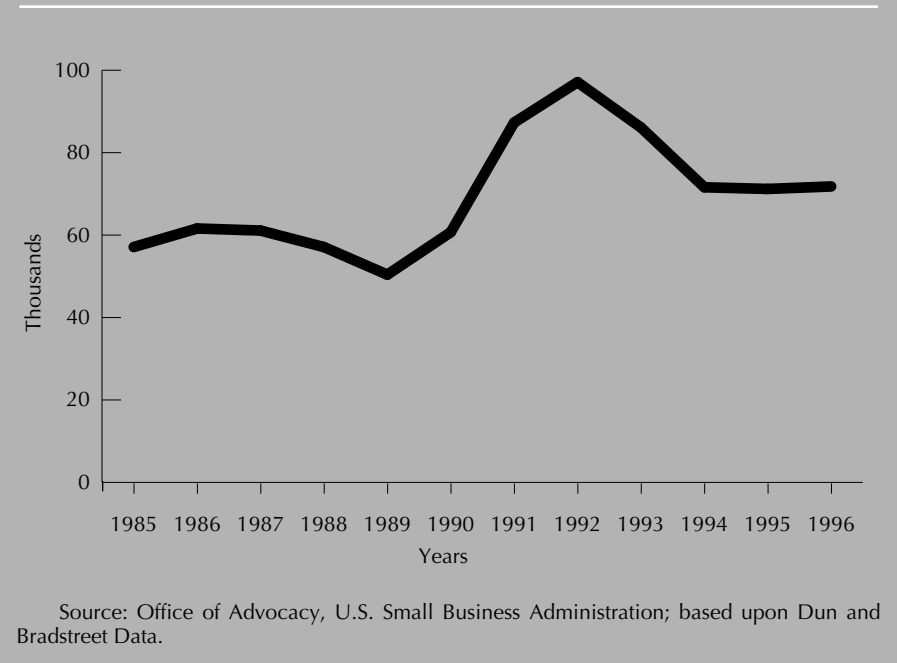
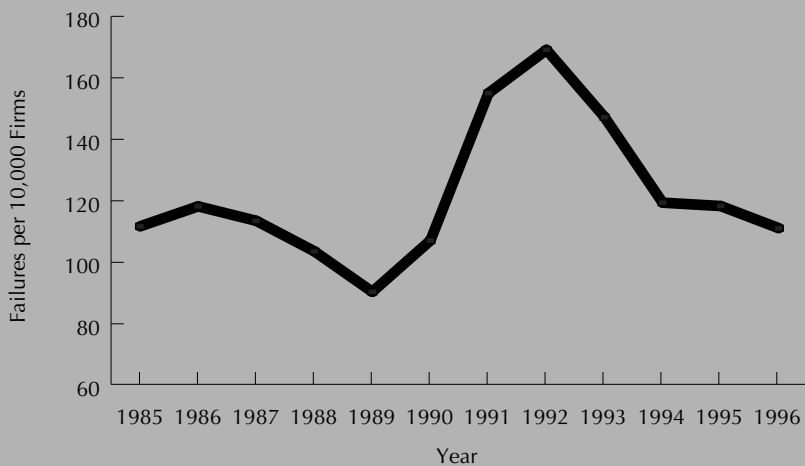


Table 1.8 *Business Failures Index: 1985–1996*

Year	Number of Firms	Number of Failures	Failures Firms x 10,000
1996	6,463,000	71,811	111.1
1995	6,068,172	71,128	118.3
1994	5,992,000	71,520	119.4
1993	5,851,288	86,133	147.2
1992	5,740,575	97,069	169.1
1991	5,685,274	88,140	155.0
1990	5,641,499	60,432	107.1
1989	5,570,407	50,361	90.4
1988	5,509,912	57,099	103.6
1987	5,393,338	61,236	113.5
1986	5,212,727	61,601	118.2
1985	5,127,126	57,252	111.7

Sources: The number of firms is derived by the U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor, Employment and Training Administration, based upon state employment security agencies' quarterly unemployment insurance reports. The number of business failures is published weekly, monthly, and annually in the Dun and Bradstreet *Business Failure Record*.

Chart 1.3 *Business Failures Index, 1985–1996*

Source: This graph was produced by the Office of Advocacy of the Small Business Administration based upon data compiled from the U.S. Department of Labor, Employment and Training Administration, and the Dun and Bradstreet *Business Failure Record*.

The rate of failure decreases year by year; by the ninth or tenth year only about 7 or 8 percent of the remaining firms fail. Fewer than half of all new firms are in operation after five years.

Business failures and bankruptcies display wide variation across the regions of the country. In 1996, failures decreased markedly in some regions (Regions I, II, III and IV) while increasing in others (Regions V through X) (Table 1.9).

Business Earnings

Corporate profits increased in 1996 for the seventh consecutive year (Table 1.10). Not since the recovery from the 1981 to 1982 recession has such a string of increases in corporate profits occurred. The 11.5 percent increase builds upon increases of 11.8 percent, 15.7 percent, and 13.4 percent in 1993–1995. Employment compensation increased 5.3 percent in 1996, the third largest increase since 1990.

Nonfarm proprietorship earnings, an important measure of the health of the small business sector, rose by 5.1 percent during 1996. The growth in proprietorship earnings between 1991 and 1996 was the highest for any five-year period since 1983–1988.⁵ Approximately 85 percent of small businesses are legally organized as proprietorships or partnerships.

Small- and Large-Business-Dominated Industries

A convenient and cost-effective way to view the role of small business in the economy is to compare employment and employment growth in industries dominated by small businesses with that of industries dominated by large businesses.⁶ Some 52.7 percent of all nonfarm private sector employment in 1994 (the latest year for which data are available) was in firms with fewer than 500 employees, down slightly from the 53.1 percent in 1993 (Table 1.11).

U.S. nonfarm private sector employment totaled 101.5 million in December 1996, a gain of more than 2.4 million (2.5 percent) over December 1995. The greatest gains in employment were in industries with the highest shares of employment in small firms.

⁵ Nonfarm proprietorship earnings are estimates because the income tax statements on which they are based are delayed in both their receipt and analysis.

⁶ Employment data by firm size are available for no later than 1992. Employment data by industry are available through 1996. The percentage of employment in small firms is calculated from 1994 Census data and is used to classify industries in 1995 by employment in small or large firms. Within the major industrial sector, the individual industries can be classified by the percentage of employment in firms with fewer than 500 employees. The classifications are small-business-dominated industries—those with more than 60 percent of employees in small firms; large-business-dominated industries—those with more than 60 percent of employees in large firms; and a remainder called “indeterminate industries”—those with between 40 and 60 percent of their employment in small or large business.

Table 1.9 *Change in Business Failures and Bankruptcies by SBA Region, 1995–1996*

	Business Failures		Change 1995–1996 (Percent)	Bankruptcies		Change 1995–1996 (Percent)
	1995	1996		1995	1996	
U.S. Total	71,128	71,811	1.0	50,516	53,214	5.3
Region I	3,395	3,055	–10.0	2,016	1,953	–3.1
Region II	7,839	7,382	–5.8	4,569	4,331	–5.2
Region III	6,760	6,065	–10.3	5,215	5,363	2.8
Region IV	8,266	8,068	–2.4	6,009	7,358	22.4
Region V	8,359	8,760	4.8	7,558	8,100	7.2
Region VI	9,061	9,347	3.2	5,662	6,354	12.2
Region VII	2,952	2,986	1.2	1,708	1,934	13.2
Region VIII	2,365	3,157	33.5	1,422	1,763	24.0
Region IX	18,440	18,753	1.7	13,691	13,245	–3.3
Region X	3,691	4,238	14.8	2,666	2,813	5.5

Sources: For failures: adapted by the U.S. Small Business Administration, Office of Advocacy, from the Dun and Bradstreet Corporation, *Business Failure Record* (various issues); for bankruptcies: from data provided by the Administrative Office of the U.S. Courts, Statistical Analysis and Reports Division.

Table 1.10 *Employment Compensation, Nonfarm Proprietorship Income, and Corporate Profits, 1982–1995 (Billions of Dollars)*

Year	Employment Compensation ¹		Nonfarm Proprietorship Earnings		Pre-Tax Corporate Profits ²	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
1996	4,448.5	5.3	471.9	5.1	654.0	11.5
1995	4,222.7	5.3	449.3	8.0	586.6	11.4
1994	4,008.3	5.2	415.9	7.2	526.5	13.4
1993	3,809.4	4.5	388.1	4.5	464.5	15.7
1992	3,644.9	5.4	371.5	11.7	401.4	4.9
1991	3,457.9	3.1	332.7	2.5	382.5	3.5
1990	3,352.8	6.4	324.6	7.8	369.5	3.7
1989	3,151.6	7.9	301.2	2.7	356.4	–2.4
1988	2,921.3	4.5	293.4	5.2	365.0	14.1
1987	2,698.7	6.9	279.0	6.7	319.8	17.7
1986	2,523.8	5.9	261.5	9.7	271.6	–3.3
1985	2,382.8	7.0	238.4	11.0	280.8	6.3
1984	2,226.9	9.7	214.7	16.5	264.2	24.2
1983	2,029.4	5.9	184.3	17.2	212.7	40.4
1982	1,916.0		157.3		151.5	

¹ Includes employee contributions for Social Security insurance.

² Includes inventory valuation and capital consumption adjustment.

Note: The data are seasonally adjusted at annual rates.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Table 1.14, January 1997.

Table 1.11 *Firms, Employment, Payroll and Estimated Receipts by Firm Size, 1988–1994*

Item	Year	Total	0-4	5-9	10-19	20-99	100-499	<500	500+
Employment Size of Firm									
Number of Firms	1994	5,276,964	3,208,235	964,985	563,097	452,383	73,267	5,261,967	14,997
	1993	5,193,642	3,139,518	962,481	559,602	445,900	71,512	5,179,013	14,629
	1992	5,095,356	3,075,280	945,802	551,912	439,084	69,156	5,081,234	14,122
	1991	5,051,025	3,036,304	941,296	551,299	439,811	68,338	5,037,048	13,977
	1990	5,073,795	3,020,935	952,030	562,610	453,732	70,465	5,059,772	14,023
	1989	5,021,315	3,003,224	937,202	553,449	443,959	69,608	5,007,442	13,873
	1988	4,954,645	2,979,905	923,580	540,988	430,640	66,708	4,941,821	12,824
Employment	1994	96,721,594	5,318,961	6,332,580	7,543,777	17,693,995	14,118,375	51,007,688	45,713,906
	1993	94,773,913	5,258,195	6,313,651	7,498,345	17,420,634	13,825,238	50,316,063	44,457,850
	1992	92,825,797	5,178,909	6,202,861	7,390,874	17,121,010	13,307,187	49,200,841	43,624,956
	1991	92,307,559	5,151,143	6,174,730	7,386,939	17,146,411	13,143,390	49,002,613	43,304,946
	1990	93,469,275	5,116,914	6,251,632	7,543,360	17,710,042	13,544,849	50,166,797	43,302,478
	1989	91,626,094	5,054,429	6,152,151	7,420,196	17,353,444	13,373,640	49,353,860	42,272,234
	1988	87,844,303	5,006,203	6,060,724	7,252,715	16,833,702	12,761,379	47,914,723	39,929,580
Annual Payroll (Thousands of Dollars)	1994	2,487,959,727	134,649,352	131,666,587	166,475,972	408,053,078	335,573,696	1,176,418,685	1,311,541,042
	1993	2,363,208,106	128,968,107	127,133,193	159,153,336	385,005,072	316,183,732	1,116,443,440	1,246,764,666
	1992	2,272,392,408	124,592,441	122,381,613	152,830,640	368,969,129	298,174,483	1,066,948,306	1,205,444,102
	1991	2,145,015,851	118,233,813	116,794,212	146,516,583	352,032,797	279,436,898	1,013,014,303	1,132,001,548
	1990	2,103,971,179	116,856,518	114,006,469	144,450,673	332,390,861	279,451,864	1,007,156,385	1,096,814,794
	1989	1,989,941,554	112,462,139	108,002,714	136,794,734	332,733,188	264,144,335	954,137,110	1,035,804,444
	1988	1,858,652,147	108,800,891	103,041,106	130,326,463	315,751,201	244,647,178	902,566,839	956,085,308
Estimated Receipts (Thousands of Dollars)	1994	14,840,452,031	880,763,759	752,675,397	928,380,448	2,531,402,508	1,930,758,304	7,023,980,416	7,816,471,615
	1993	14,098,572,035	846,812,139	730,360,041	891,635,409	2,394,813,062	1,816,354,667	6,679,975,318	7,418,596,717
	1992	13,605,183,510	820,739,417	705,146,922	859,446,404	2,292,331,108	1,717,787,820	6,395,451,671	7,209,731,839
	1991	12,961,443,765	777,737,765	680,215,533	829,024,906	2,207,714,822	1,618,186,793	6,112,879,819	6,848,563,903
	1990	9,450,655,960	626,678,614	569,639,860	681,191,539	1,715,442,516	1,316,747,423	4,909,699,952	4,540,956,008

Notes: 1990 is the first year estimated receipts were reported. This table does not illustrate job growth. For information on job growth, the Office of Advocacy utilizes longitudinal data from the Bureau of the Census that tracks firms over a period.

Source: U.S. Small Business Administration, Office of Advocacy, based upon data provided by the U.S. Department of Commerce, Bureau of the Census.

Generally, small firms created jobs in two ways; through births of new small firms in rapidly growing sectors like business and health services and through expansions of existing fast-growth companies. These companies exist in virtually every sector of the economy, but are found increasingly in new technology manufacturing companies that start small and grow very rapidly.⁷ Over a period of 1-2 years, about one-third of new jobs come from births, and two-thirds of new jobs come from expansions of existing companies.⁸

The services industry sector continues to be the largest creator of new jobs, adding almost 1.2 million positions in calendar year 1996. The service sector was defined as "dominated" by small businesses (with 60 percent or more of its employment in firms with fewer than 500 employees) until 1991. Small businesses still constitute 57.0 percent of the employment in services. Retail trade added more than one-half million new jobs in 1996.

Overall, the U.S. economy created 2.44 million jobs during 1996, growing 2.5 percent. Small-firm-dominated sectors created about 64 percent of those jobs. The remaining job growth was evenly split between industries dominated by large firms and those not dominated by either category. During 1996, the small-business-dominated sector expanded 3.3 percent (1.5 million new jobs), while the large-firm-dominated sector grew 1.3 percent (443,100 new jobs) and indeterminate sectors expanded 2.4 percent (444,800 new jobs) (Table 1.12).

Small-business-dominated industries in the construction sector showed the largest percentage gain, with employment growth of 5.7 percent (292,500 jobs). The service industry showed the largest numerical gain in employment among the small-business-dominated industries, with 569,800 new jobs (a 3.4-percent increase).

Major Industry Sectors

Some 101.5 million nonfarm private sector workers were employed in the United States in December 1996, a gain of almost 2.44 million (2.5 percent) over December 1995. The greatest gains in employment were in major industries with the highest percentage of employment in small firms (Table 1.13).

While the small business share of overall employment stayed relatively constant from 1992 to 1994 (from 53.0 percent to 52.7 percent), some sectors appear to be in flux.⁹ Changes in employment shares of small businesses in the major industries illustrate the trends.

⁷ SBA's Office of Advocacy, in cooperation with the U.S. Department of Commerce, Bureau of the Census, has been developing a Longitudinal Enterprise and Establishment Microdata base (LEEM), capable of tracing individual firms (and their employment changes) over time. The file currently extends from 1990 to 1995, with additional years to be added shortly. It is from firm-specific files such as this that definitive statements about job creation can be made.

⁸ This statement excludes changes resulting from mergers, acquisitions, divestitures, and other changes in the legal form of organization.

⁹ Dynamic data from the Bureau of Census prepared under contract for the U.S. Small Business Administration, Office of Advocacy, show an increase in the nonfarm share of small business employment from 53 percent in 1991 to 55 percent in 1993.

Table 1.12 *Change in Employment by Firm Size Dominance and Major Industrial Sector, December 1995 and December 1996 (Absolute Change in Thousands)*

Industry	Small-Business-Dominated Industries		Large-Business-Dominated Industries		Indeterminate Industries		Aggregate of All Industry Sectors	
	Percent	Absolute	Percent	Absolute	Percent	Absolute	Percent	Absolute
Total, All Industries	3.3	1,548.9	1.3	443.1	2.4	444.8	2.5	2,436.8
Agricultural Services	5.6	30.3	NA	NA	NA	NA	5.6	30.3
Mining	4.3	1.4	-5.2	-16.2	4.6	10.3	-0.8	-4.5
Construction	5.7	292.5	NA	NA	NA	NA	5.7	292.5
Manufacturing	-0.1	-2.2	-0.8	-88.0	-0.2	-9.8	-0.5	-100.0
Transportation	5.3	57.7	1.9	62.4	-1.5	-30.3	1.4	89.8
Wholesale Trade	2.5	102.3	2.7	21.6	2.2	36.4	2.5	160.3
Retail Trade	3.3	429.5	1.7	124.7	6.2	96.6	3.0	650.8
Finance, Insurance and Real Estate	2.9	67.6	1.1	35.4	4.7	63.9	2.4	166.9
Services	3.4	569.8	3.5	303.2	3.8	277.7	3.5	1,150.7

NA = Not available and indicates lack of industry representation within that size category. Detail may not add to total because of rounding.

Note: Excludes self-employed workers. Small-business-dominated industries are industries in which a minimum of 60 percent of employment is in firms with fewer than 500 employees. While 99.9 percent of industry employment was allocated to small- and large-business-dominated and indeterminate industries, about 2 percent of employment in the manufacturing and service sectors could not be allocated because of SIC code inconsistencies.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, 1997.

Construction led the sectors with a 5.7 percent employment increase (292,500 new jobs) followed by an agricultural services increase of 5.6 percent (30,300 new jobs). Both sectors have 89 percent of their employment in firms with fewer than 500 employees. The services sector continues to be the largest creator of new jobs, adding 1.1 million positions in calendar year 1996. Small businesses constitute 57.0 percent of the employment in this sector. The next largest contributor to employment was the retail trade sector, which added 651,000 new jobs. Mining and manufacturing have low small business shares and were the only major industries to lose jobs during 1996.

Aggregating small- and large-business-dominated industries into major industries reveals similar results (Table 1.12). Leading the job growth were construction and agricultural services, both of which are composed entirely of small-business-dominated industries. In manufacturing and mining, large-business-dominated industries lost 104,200 of the 104,500 lost jobs. Within mining, large-business-dominated industries led job-losing industries; employment in these industries declined by 5.2 percent (16,200 jobs).

In the large-business-dominated industries, the services sector recorded the largest absolute and percentage gains in employment. The continued

Table 1.13 *Employment by Major Industrial Sector, December 1995 and December 1996 (Thousands)*

	Small Business Share, 1994 (Percent)	December		Percent Change 1995–1996	Absolute Change 1995–1996
		1995	1996		
Total, All Industries	52.7	99,085.3	101,522.1	2.5	2,436.8
Agricultural Services	89.3	543.7	574.0	5.6	30.3
Mining	40.7	569.7	565.2	–0.8	–4.5
Construction	89.0	5,131.3	5,423.8	5.7	292.5
Manufacturing	38.5	18,429.2	18,329.2	–0.5	–100.0
Transportation	36.1	6,276.8	6,366.6	1.4	89.8
Wholesale Trade	67.5	6,498.5	6,658.8	2.5	160.3
Retail Trade	52.6	21,922.8	22,573.6	3.0	650.8
Finance, Insurance, and Real Estate	43.1	6,866.2	7,033.1	2.4	166.9
Services	57.0	32,847.1	33,997.8	3.5	1,150.7

Note: Excludes self-employed workers. Small-business-dominated industries are industries in which a minimum of 60 percent of employment is in firms with fewer than 500 employees. While 99.9 percent of industry employment was allocated to small- and large-business-dominated and indeterminate industries, about 2 percent of employment in the manufacturing and service sectors could not be allocated because of SIC code inconsistencies.

Source: U.S. Small Business Administration, Office of Advocacy, from employment data provided by the U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, and firm size data provided by the U.S. Department of Commerce, Bureau of the Census.

movement of the services industry toward larger firms is illustrated by the gain of 277,700 new jobs in the indeterminate class of industries and 303,200 jobs in the large-business-dominated industries. These gains contributed to a larger percentage increase for services in industries dominated by large businesses (3.5 percent), and in indeterminate industries (3.8 percent) than in small-business-dominated industries (2.9 percent).

Specific Industries

A look at the 15 small- and large-business-dominated industries exhibiting the greatest changes in employment provides some insight into the changing composition of employment growth in the United States.

The 15 strongest job creators among the small-business-dominated industries created 1 million net new jobs, while their large-business-dominated counterparts added 580,600 (Table 1.14). Special trade contractors, representing various activities in the building construction industry, led the list of small-business-dominated industries for the second year in a row, with 230,600 new jobs. Retail trade industries were prominent, representing five of the 15 top job-creating industries in the small-business-dominated sector. The per-

Table 1.14 *Industries Generating the Most Jobs, December 1995 to December 1996 (Thousands)*

		December		Absolute Change	Percent Change
		1995	1996	1995–1996	1995–1996
Small-Business-Dominated Industries					
172	Special Trade Contractors	3,227.7	3,458.3	230.6	7.1
58	Eating and Drinking Places	7,389.0	7,504.0	115.0	1.6
87	Engineering, Accounting, Research	825.7	900.5	74.8	9.1
799	Miscellaneous Amusement Recreation Services	949.6	1,014.2	64.6	6.8
801	Offices of Physicians	1,641.4	1,702.8	61.4	3.7
50	Durable Goods	2,726.9	2,783.0	56.1	2.1
59	Miscellaneous Retail Establishments	222.5	277.2	54.7	24.6
571	Furniture and Home Furnishings Stores	503.1	553.7	50.6	10.1
174	Masonry, Stonework, and Plastering	422.2	471.4	49.2	11.7
15	General Building Contractors	1,198.2	1,245.1	46.9	3.9
51	Nondurable Goods	1,296.0	1,342.2	46.2	3.6
521	Lumber and Other Building Materials Stores	511.7	552.5	40.8	8.0
171	Plumbing, Heating, and Air Conditioning	733.5	769.9	36.4	5.0
551	New and Used Car Dealers	1,005.4	1,040.8	35.4	3.5
173	Electrical Work	623.5	658.5	35.0	5.6
Total, Top 15 Industries				997.7	
Large-Business-Dominated Industries					
7363	Personnel Supply Services	2,285.2	2,428.4	143.2	6.3
531	Department Stores	2,593.4	2,701.9	108.5	4.2
8062	Hospitals	3,517.0	3,579.3	62.3	1.8
451	Air Transportation	656.8	700.6	43.8	6.7
48	Communications	1,247.1	1,281.8	34.7	2.8
822	Colleges and Universities	1,260.3	1,290.0	29.7	2.4
481	Telephone Communication	931.6	952.3	20.7	2.2
621	Security Brokers and Dealers	401.9	422.3	20.4	5.1
7374	Computer Processing and Data Preparation	235.3	255.7	20.4	8.7
632	Medical Service and Health Insurance	314.7	334.8	20.1	6.4
781	Motion Picture Production	221.8	240.9	19.1	8.6
7514	Passenger Car Rental	118.0	133.7	15.7	13.3
6021	National Commercial Banks	589.6	604.2	14.6	2.5
80	Health Services	355.7	369.4	13.7	3.9
5045	Computers and Computer Peripheral Equipment	311.1	324.8	13.7	4.4
Total, Top 15 Industries				580.6	

Note: Excludes self-employed workers. Small-business-dominated industries are industries in which a minimum of 60 percent of employment is in firms with fewer than 500 employees. While 99.9 percent of industry employment was allocated to small- and large-business-dominated and indeterminate industries, about 2 percent of employment in the manufacturing and service sectors could not be allocated because of SIC code inconsistencies.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*.

sonnel supply services industry led employment gains in large-business-dominated industries, with 143,200 new jobs, followed by department stores. No manufacturing or mining industries were represented on either top 15 list.

The fastest growing small-business-dominated industries increased their employment by 10.8 percent, while large-business-dominated industries increased by 6.5 percent (Table 1.15). Retail industries were also well represented on this list of fast-growing industries: the miscellaneous retail establishments industry led the small-business-dominated list with an employment increase of 24.6 percent. Service industries led the large-business-dominated industries list with five of the 15 top industries: information retrieval services was the fastest growing large-business-dominated industry, with an employment increase of 15.4 percent.

The changing structure of industry can also be viewed through a review of the industries losing the most jobs (Table 1.16). These job losses may reflect absolute employment declines, productivity gains, or exporting of jobs. A range of industries across the manufacturing, retail trade, and service sectors showed employment declines. The 15 small-business-dominated industries losing the most jobs lost 80,000 jobs, compared with 176,500 jobs in the 15 comparable large-business-dominated industries.

Comparisons of employment changes in job-losing industries with employment changes in job-gaining industries indicate continuing job losses in large-firm-dominated apparel and steel industries, and continued downsizing in the food processing and bakery sectors. In small-firm-dominated industries, losses in automotive-related sectors may be based upon improved productivity, while losses in printing and photofinishing may also be productivity-related. Explanations for these observations are subjects of continuing research.

Conclusion

Nineteen-ninety-six was another excellent year for the economy, for business, and for small business. The economy gained 2.4 million new jobs and real gross domestic product increased by 2.5 percent. The unemployment rate fell from 5.6 percent in 1995 to 5.4 percent in 1996. Consumer prices were stable, as were wholesale prices. Corporate profits and employee compensation both increased. These increases represented real increases in disposable income.

Small-business-dominated industries added jobs to the economy at a rate more than 1.3 times the national rate of increase. Small businesses are concentrated in the trade and service sectors that are growing and consolidating most rapidly. Within the trade and service sectors many small business owners view business growth as an important goal for their firms. As their businesses become larger, the small business share of employment in these sectors is declining—an indicator that small businesses are succeeding in generating economic growth.

Table 1.15 *Fastest Growing Industries, December 1995 to December 1996*
(Thousands)

		December		Absolute Change	Percent Change
		1995	1996	1995–1996	1995–1996
Small-Business-Dominated Industries					
59	Miscellaneous Retail Establishments	222.5	277.2	54.7	24.6
47	Transportation Services	43.5	49.3	5.8	13.3
542	Meat Markets and Freezer Provisioners	51.9	58.6	6.7	12.9
174	Masonry, Stonework, and Plastering	422.2	471.4	49.2	11.7
52	Building Materials and Garden Supplies	37.0	40.9	3.9	10.5
7532	Top, Body, and Upholstery Repair Shops	205.7	226.4	20.7	10.1
571	Furniture and Home Furnishings Stores	503.1	553.7	50.6	10.1
593	Used Merchandise Stores	104.5	114.8	10.3	9.9
526	Retail Nurseries and Garden Stores	91.0	99.8	8.8	9.7
5148	Fresh Fruits and Vegetables	107.0	117.3	10.3	9.6
753	Automotive Repair Shops	134.3	147.1	12.8	9.5
733	Mailing, Reproduction, Stenographic	289.4	316.6	27.2	9.4
7538	General Automotive Repair Shops	238.7	261.0	22.3	9.3
87	Engineering, Accounting, Research	825.7	900.5	74.8	9.1
807	Medical and Dental Laboratories	199.1	217.1	18.0	9.0
Total, Top 15 Industries				376.1	10.8
Large-Business-Dominated Industries					
7375	Information Retrieval Services	60.3	69.6	9.3	15.4
7514	Passenger Car Rental	118.0	133.7	15.7	13.3
45	Transportation by Air	47.2	53.4	6.2	13.1
615	Business Credit Institutions	97.4	107.8	10.4	10.7
7374	Computer Processing and Data Preparation	235.3	255.7	20.4	8.7
781	Motion Picture Production	221.8	240.9	19.1	8.6
458	Air Transportation Services	115.2	124.6	9.4	8.2
3728	Aircraft Parts and Auxiliary Equipment	112.7	121.8	9.1	8.1
636	Title Insurance	66.8	71.9	5.1	7.6
451	Air Transportation	656.8	700.6	43.8	6.7
484	Cable and Other Pay Television Services	167.3	178.4	11.1	6.6
632	Medical Service and Health Insurance	314.7	334.8	20.1	6.4
7363	Personnel Supply Services	2,285.2	2,428.4	143.2	6.3
63	Insurance Carriers	62.8	66.7	3.9	6.2
2451	Mobile Homes	62.2	65.8	3.6	5.8
Total, Top 15 Industries				330.4	8.8

Note: Excludes self-employed workers. Small-business-dominated industries are industries in which a minimum of 60 percent of employment is in firms with fewer than 500 employees. While 99.9 percent of industry employment was allocated to small- and large-business-dominated and indeterminate industries, about 2 percent of employment in the manufacturing and service sectors could not be allocated because of SIC code inconsistencies.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*.

Table 1.16 *Industries Losing the Most Jobs, December 1995 to December 1996 (Thousands)*

		December		Absolute Change	Percent Change
		1995	1996	1995–1996	1995–1996
Small-Business-Dominated Industries					
233	Women's and Misses' Outerwear	257.1	238.0	–19.1	–7.4
509	Miscellaneous Durable Goods	342.4	335.0	–7.4	–2.2
734	Services to Buildings	888.8	881.7	–7.1	–0.8
241	Logging	83.0	76.8	–6.2	–7.5
561	Men's and Boys' Clothing and Furnishings	90.7	86.0	–4.7	–5.2
793	Bowling Centers	89.8	85.2	–4.6	–5.1
863	Labor Organizations	139.9	135.5	–4.4	–3.1
572	Household Appliance Stores	78.6	74.2	–4.4	–5.6
2361	Girls', Children's, Infants' Dresses and Blouses	17.0	13.0	–4.0	–23.5
7384	Photofinishing Laboratories	77.4	73.8	–3.6	–4.7
2396	Automotive Trimmings, Apparel Findings	57.3	54.0	–3.3	–5.8
5962	Automatic Merchandising Machine Operators	70.3	67.1	–3.2	–4.6
279	Printing Trade Services	54.3	51.6	–2.7	–5.0
5064	Electrical Appliances, Television, and Radio	49.4	46.9	–2.5	–5.1
515	Farm Product Raw Materials	109.8	107.4	–2.4	–2.2
Total, Top 15 Industries Losing Jobs				–79.6	
Large-Business-Dominated Industries					
631	Life Insurance	568.7	542.9	–25.8	–4.5
49	Electric, Gas, and Sanitary Services	907.9	883.9	–24.0	–2.6
232	Men's and Boys' Furnishings	236.6	217.6	–19.0	–8.0
491	Electrical Services	396.7	380.7	–16.0	–4.0
131	Oil and Gas Extraction	145.7	134.4	–11.3	–7.8
3711	Motor Vehicles and Passenger Car Bodies	369.2	358.7	–10.5	–2.8
8731	Physical and Biological Research	220.5	210.0	–10.5	–4.8
60	Banking	414.6	405.0	–9.6	–2.3
562	Women's Clothing Stores	357.9	349.1	–8.8	–2.5
203	Canned, Frozen Fruits, Vegetables	214.1	206.5	–7.6	–3.5
2015	Poultry Slaughtering and Processing	239.2	231.6	–7.6	–3.2
3731	Ship Building and Repairing	102.3	95.2	–7.1	–6.9
4011	Railroads, Line-Haul Operating	209.1	202.6	–6.5	–3.1
6036	Savings Institutions, Not Federally Chartered	121.4	115.3	–6.1	–5.0
331	Steel Works, Blast Furnaces	214.0	207.9	–6.1	–2.9
Total, Top 15 Industries Losing Jobs				–176.5	

Note: Excludes self-employed workers. Small-business-dominated industries are industries in which a minimum of 60 percent of employment is in firms with fewer than 500 employees. While 99.9 percent of industry employment was allocated to small- and large-business-dominated and indeterminate industries, about 2 percent of employment in the manufacturing and service sectors could not be allocated because of SIC code inconsistencies.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*.